PROVINCE OF SASKATCHEWAN

# 2008

# ANNUAL REPORT

## EXTENDED HEALTH CARE PLAN FOR RETIRED EMPLOYEES

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# Letters of Transmittal

His Honour, The Honourable Dr. Gordon L. Barnhart
Lieutenant Governor of the Province of Saskatchewan

May it Please Your Honour:

I have the honour to transmit herewith the seventh Annual Report of the Extended Health Care Plan for Retired Employees for the year ending December 31, 2008.

Rod Gantefoer
Minister of Finance

The Honourable Rod Gantefoer
Minister of Finance

Sir:

On behalf of the Public Employees Benefits Agency, I have the honour to transmit herewith the seventh Annual Report of the Extended Health Care Plan for Retired Employees for the year ending December 31, 2008.

Brian Smith
Assistant Deputy Minister
Public Employees Benefits Agency

# Extended Health Care Plan For Retired Employees

**Introduction**

The Extended Health Care Plan for Retired Employees was established on January 15, 2002.

The Fund is used to account for the transactions of the Extended Health Care Plan for Retired Employees which provides health care benefits to eligible retired employees of the Government of Saskatchewan.

As at December 31, 2008, participation in the Plan has been approved by the Lieutenant Governor in Council for all government organizations whose employees are employees of the Government of Saskatchewan as defined under *The Public Service Act* and who are members of PS/GE SGEU or CUPE 600-3.

**Participating Employers**

The following employers participate in the Extended Health Care Plan for Retired Employees:

With respect to individuals who are, or who immediately prior to the termination of their employment were, members of the Saskatchewan Government and General Employees Union:

Board of Arbitration under *The Surface Rights Acquisition and Compensation Act* (The)
Children's Advocate (Office of the)
Farm Land Security Board
Horned Cattle Fund
Information and Privacy Commissioner (Office of the)
Milk Control Board
Ombudsman (Office of the)
Prairie Diagnostic Services
The Government of Saskatchewan with respect to members of the Public Service of Saskatchewan as defined under *The Public Service Act, 1998*
Saskatchewan Archives Board
Saskatchewan Municipal Board

With respect to individuals who are, or who immediately prior to the termination of their employment were, members of the Canadian Union of Public Employees, Local No. 600-3:

The Government of Saskatchewan with respect to members of the Public Service of Saskatchewan as defined under *The Public Service Act, 1998*

**Administration**

The Public Employees Benefits Agency has established a fund pursuant to *The Financial Administration Act, 1993* for the purpose of providing benefits under the Plan. A Joint Board of Trustees, comprised of an equal number of management and union representatives, has been established and is responsible for reviewing the ongoing operations of the Plan.

Group Medical Services provides insured extended health coverage to eligible retirees.

The Plan pays a premium subsidy to Group Medical Services on behalf of PS/GE SGEU retirees. The Plan's risk is limited to the payment of the monthly premium subsidy as follows under the two year contract effective January 1, 2008:

| | | |
|---|---|---|
| Single | $14.00 | per month |
| Couple | $28.00 | per month |
| Family | $35.00 | per month |

**Funding**

Effective October 1, 2002 funding for the Plan became employer paid at a rate of .25% of straight time annual payroll. For the period December 1, 2004 to November 30, 2005, the Government and PS/GE SGEU decided to divert

funding to the PS/GE SGEU Benefit Plans' Surplus Fund. This amounted to $1,013,682.

**Benefits**

All PS/GE SGEU employees meeting the Definition of a Retiree are eligible to enroll in plan.

Definition of Retiree:

A bargaining unit employee, and/or surviving spouse, who on or after October 1, 2000:

a) ceases to be employed in the bargaining unit;

b) is age 50 or more when employment ceases;

c) if ceasing to be employed on or after January 1, 2002, has a minimum of eight years of service with departments, boards, commissions, and other agencies covered by Article 2 of the Collective Agreement;

d) is in receipt of, or eligible to receive a pension or deferred pension from the Saskatchewan Pension Annuity Fund or the Public Service Superannuation Fund;

e) was enrolled and participating in the Extended Health Plan for employees at the time of termination/retirement; and

f) was not terminated for cause.

Claims are paid on behalf of eligible family members and cover certain health and vision care benefits.

# Management's Report

To the Members of the Legislative Assembly of Saskatchewan

As members of management of the Extended Health Care Plan for Retired Employees, we are responsible for the preparation and presentation of the following financial statements in accordance with Canadian generally accepted accounting principles applied on a basis consistent with that of the preceding year.

The significant accounting policies adopted in the preparation of the financial statements are fully and fairly disclosed in the financial statements.

We believe the Extended Health Care Plan for Retired Employees has a system of internal control adequate to provide reasonable assurance that the accounts are faithfully and properly kept to permit the preparation of accurate financial statements in accordance with Canadian generally accepted accounting principles.

A Joint Board of Trustees, comprised of an equal number of management and union representatives, has been established and is responsible for reviewing the ongoing operations of the Plan.

We enclose the financial statements of the Extended Health Care Plan for Retired Employees for the year ended December 31, 2008 and the Provincial Auditor's report on these financial statements.

Brian Smith
Assistant Deputy Minister
Public Employees Benefits Agency

Perry Bahr
Director, Benefit Programs
Public Employees Benefits Agency

Kathy Deck
Director, Financial Services
Public Employees Benefits Agency

Regina, Saskatchewan
February 18, 2009

# Extended Health Care Plan For Retired Employees

## Financial Statements

Year Ended December 31, 2008

# Auditor's Report

To the Members of the Legislative Assembly of Saskatchewan

I have audited the statement of financial position of the Extended Health Care Plan for Retired Employees as at December 31, 2008 and the statements of operations and net assets, and cash flows for the year then ended. The Plan's management is responsible for preparing these financial statements for Treasury Board's approval. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Plan as at December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Regina, Saskatchewan
February 18, 2009

Fred Wendel, CMA, CA
Provincial Auditor

## Extended Health Care Plan For Retired Employees
## Statement of Financial Position

**Statement 1**

**As At December 31**

| | 2008 | 2007 |
|---|---|---|
| **ASSETS** | | |
| Due from General Revenue Fund (Note 3) | $ 233,084 | $ 114,586 |
| Short-term investments (Note 4) | 4,924,325 | 3,929,271 |
| Employer contributions receivable | 97,498 | 92,014 |
| Prepaid Expenses | 916 | - |
| | 5,255,823 | 4,135,871 |
| **LIABILITIES** | | |
| Accounts payable and accrued liabilities (Note 6) | - | 3,945 |
| Net assets (Statement 2) | $ 5,255,823 | $ 4,131,926 |

(See accompanying notes to the financial statements)

## Extended Health Care Plan For Retired Employees
## Statement of Operations and Net Assets

**Statement 2**

**For The Year Ended December 31**

| | 200 | | 2007 |
|---|---|---|---|
| | Budget (Note 7) | Actual | Actual |
| **REVENUES** | | | |
| Employer contributions (Note 1) | $1,306,000 | $1,258,991 | $1,194,787 |
| Interest Income (Notes 3 & 4) | 200,400 | 148,968 | 151,571 |
| | 1,506,400 | 1,407,959 | 1,346,358 |
| **EXPENSES** | | | |
| Insurance premium subsidy | 256,000 | 251,966 | 188,970 |
| Administration (Note 6) | 41,094 | 32,096 | 21,975 |
| | 297,094 | 284,062 | 210,945 |
| Surplus for the year | 1,209,306 | 1,123,897 | 1,135,413 |
| NET ASSETS, BEGINNING OF YEAR | 4,131,926 | 4,131,926 | 2,996,513 |
| NET ASSETS, END OF YEAR (Statement 1) | $5,341,232 | $5,255,823 | $4,131,926 |

(See accompanying notes to the financial statements)

## Extended Health Care Plan For Retired Employees
## Statement of Cash Flows

**Statement 3**

**For The Year Ended December 31**

| | 2008 | 2007 |
|---|---|---|
| **Cash flows from (used in) operating activities:** | | |
| Employer contributions received | $ 1,253,507 | $ 1,186,437 |
| Interest income received | 162,602 | 140,387 |
| Insurance premium subsidies paid | (251,966) | (188,970) |
| Administration expenses paid | (36,957) | (19,607) |
| **Cash flows from operating activities** | 1,127,186 | 1,118,247 |
| **Cash flows from (used in) investing activities:** | | |
| Purchase of investments | (21,572,782) | (13,725,361) |
| Proceeds from disposal of investments | 20,564,094 | 12,398,665 |
| **Cash flows used in investing activities** | (1,008,688) | (1,326,696) |
| Net increase (decrease) in due from General Revenue Fund | 118,498 | (208,449) |
| DUE FROM GENERAL REVENUE FUND, BEGINNING OF YEAR | 114,586 | 323,035 |
| DUE FROM GENERAL REVENUE FUND, END OF YEAR | $ 233,084 | $ 114,586 |

(See accompanying notes to the financial statements)

## Extended Health Care Plan For Retired Employees
## Notes to the Financial Statements

**December 31, 2008**

### 1. Description of the Plan

The Extended Health Care Plan for Retired Employees (Plan) was established on January 15, 2002 pursuant to subsection 64(2) of *The Financial Administration Act, 1993*. The Plan provides extended health care benefits to eligible retired employees of the Government of Saskatchewan who were members of either the Saskatchewan Government and General Employees' Union (PS/GE SGEU) or the Canadian Union of Public Employees', Local 600-3 (CUPE).

The Public Employees Benefits Agency (PEBA) manages the Plan under direction from the Joint Board of Trustees. The Joint Board of Trustees is made up of equal representation of union members and employers' representatives.

The Government through the Minister of Finance has entered into an agreement with an insurance company to provide eligible retirees with extended health coverage. The retirees are responsible to pay the insurance company the premiums set out in the agreement less a premium subsidy which is paid by the Plan. Currently, only retired PS/GE SGEU members are eligible for the premium subsidy from the Plan. The Plan's risk is limited to the payment of a monthly premium subsidy for eligible retired PS/GE SGEU members. The monthly premium subsidy for the year was $14.00 for a single policy, $28.00 for a couple policy and $35.00 for a family policy.

The Plan is funded by employers, whose participation in the Plan has been approved by the Lieutenant Governor in Council. The contribution rate, set out in the PS/GE SGEU collective bargaining agreement with the Government, is 0.25% of the regular pay of current PS/GE SGEU employees. Currently, the Plan receives no contributions for retired CUPE members and does not pay any premium subsidies for these retirees.

### 2. Significant Accounting Policies

Pursuant to standards established by the Public Sector Accounting Board, the Plan is classified as an other government organization. These financial statements are prepared in accordance with Canadian generally accepted accounting principles applicable to for-profit entities. The following accounting policies are considered significant.

a) Change in Accounting Policies

Effective January 1, 2008, three new presentation and disclosure standards were adopted: Canadian Institute of Chartered Accountants (CICA) Handbook Section 1535, *Capital Disclosures* (Section 1535); Handbook Section 3862, *Financial Instruments - Disclosures* (Section 3862); and Handbook Section 3863, *Financial Instruments - Presentation* (Section 3863).

Section 1535 requires the disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate the entity's objectives, policies and processes for managing capital. As this standard only addressed disclosure requirements, there is no change in net assets.

Section 3862 and 3863 replaced Handbook section 3861, *Financial Instruments - Disclosure and Presentation*. The new disclosure standards increase the disclosures related to financial instruments and the nature, extent and management of the Plan's risks arising from financial instruments. The presentation standards carry forward unchanged from the former presentation requirements. As these standards only address disclosure and presentation requirements, there is no impact on the Plan's net assets.

b) Employer Contributions

Employers are billed premiums at the end of each month. Premiums are recognized as revenue when due.

c) Interest Revenue

Interest is recognized as income when earned.

d) Financial Instruments

Held for trading financial assets and liabilities are measured at fair value. Changes in the fair value are recognized in the Statement of Operations and Net Assets. For due from General Revenue Fund and short-term investments, fair value is determined as cost plus accrued income, which approximates market value. Loans and receivables and other financial liabilities are measured at amortized cost. Due to their short-term nature, the amortized cost of these instruments approximates their fair value.

e) Future Accounting Policy Changes

The Accounting Standards Board of the Canadian Institute of Chartered Accountants has issued an exposure draft proposing to adopt International Financial Reporting Standards (IFRS) effective January 1, 2011. At that time, the Plan will effectively cease to use Canadian GAAP and will adopt IFRS. The Plan is monitoring the transition to IFRS and is assessing the impact that the adoption of IFRS will have on its financial statements.

## 3. Due from General Revenue Fund

The Plan's bank account is included in the Consolidated Offset Bank Concentration arrangement for the Government of Saskatchewan. The Plan's earned interest is calculated and paid by the General Revenue Fund on a quarterly basis into the Plan's bank account using the Government's thirty day borrowing rate, and the Plan's average daily bank account balance. The Government's average thirty day borrowing rate in 2008 was 2.57% (2007 – 4.26%).

## 4. Short-Term Investments

Short-term investments are comprised of T-Bills, notes and commercial paper with effective interest rates of 1.5% to 2.5% (2007 - 3.9% to 4.8%) and an average remaining term to maturity of 47 days (2007 – 49 days). Investments are purchased through the Treasury and Debt Management Branch of the Ministry of Finance and are subject to the Ministry's investment guidelines. The guidelines require that investments must meet a minimum investment standard of "R-1" rating, as rated by a recognized credit rating service.

## 5. Financial Risk Management

The nature of the Plan's operations result in a statement of financial position that consists primarily of financial instruments. The risks that arise are credit risk, market risk (consisting of interest rate risk) and liquidity risk.

Credit risk

Credit risk is the risk that one party does not pay funds owed to another party. The Plan's credit risk arises primarily from the following distinct sources:

| | 2008 | 2007 |
|---|---|---|
| Due from General Revenue Fund | $233,084 | $ 114,586 |
| Short-term investments | 4,924,325 | 3,929,271 |
| Employer contributions receivable | 97,498 | 92,014 |

The maximum credit risk to which the Plan is exposed is limited to the carrying value of the financial assets summarized above.

The credit risk for short-term investments is managed through a policy that requires investments to meet minimum investment standards as determined by a recognized credit rating agency.

The Plan is exposed to minimal credit risk from the potential non-payment of employer contributions as these are receivables from government agencies and were collected shortly after year end.

Market risk

Market risk represents the potential for loss from changes in the value of financial instruments. Values can be affected by changes in interest rates. The Plan is exposed to changes in interest rates on its short-term investments.

Liquidity risk

Liquidity risk is the risk that the Plan is unable to meet its financial obligations as they fall due. The Plan manages this risk by investing in financial assets with a very short-term to maturity.

## 6. Related Party Transactions

Included in these financial statements are transactions with various Saskatchewan Crown corporations, ministries, agencies, boards and commissions related to the Plan by virtue of common control or significant influence by the Government of Saskatchewan (collectively referred to as "related parties"). Related party transactions with the Plan are in the normal course of operations and are recorded at the agreed upon exchange amounts charged by these organizations.

All employer contributions and employer contributions receivable are from related parties. Also, in 2008, PEBA charged the Plan $32,096 (2007 – $21,975) for administration expenses. Included in accounts payable and accrued liabilities is $0 (2007 – $3,945) due to PEBA. Prepaid expenses of $916 (2007 - $0) are due from PEBA.

Other transactions with related parties and amounts due to/from them are described separately in the financial statements and notes thereto.

## 7. Budget

PEBA prepares the budget for approval by the Joint Board of Trustees.